

Monthly Update of the ASEAN+3 Regional Economic Outlook (AREO)

ASEAN+3 Macroeconomic Research Office (AMRO)

Singapore

February 2019

This Monthly Update of the AREO was prepared by Anthony Tan, Vanne Khut and Edmond Choo (Regional Surveillance team), reviewed by Li Lian Ong (Group Head) and approved by Hoe Ee Khor (Chief Economist).

Unless otherwise indicated, the analysis in this report is based on information available up to 7 February 2019. For the sake of brevity, “Hong Kong, China” will be referred to as “Hong Kong” in the text and figures.

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Global Economic Developments

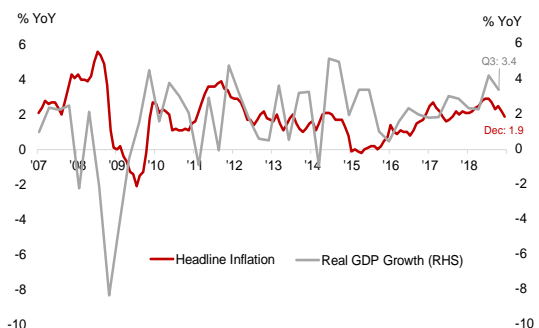
As expected, the Fed kept its policy rate on hold (at 2.25–2.5 percent) at the January 30 FOMC meeting, in light of the uncertainty surrounding global developments, and subdued domestic inflation. The central bank also signaled that it will pause interest rate hikes and be flexible in normalizing its balance sheet as it seeks to ensure maximum employment and price stability. The market now expects no rate rise in 2019 and possibly a cut in 2020.

Global markets have rebounded as volatility receded. The VIX declined further in the second-half of January and has remained relatively stable since, while markets rallied (Figure 2). The improvement in sentiment is attributable to early optimism on the U.S.-China trade talks and the end of the U.S. government shut-down. It was supported by the Fed’s dovish tone, which also saw some softening in the U.S. dollar.

U.S. employment surged, despite the temporary government shutdown. Non-farm payrolls increased by 82,000 jobs to 304,000 jobs in January, the highest level in 11 months, largely driven by hiring at construction sites, retailers and business services as well as at restaurants and hotels. However, the unemployment rate edged up on the back of the 35-day government shutdown, while wages slowed (Figure 3).

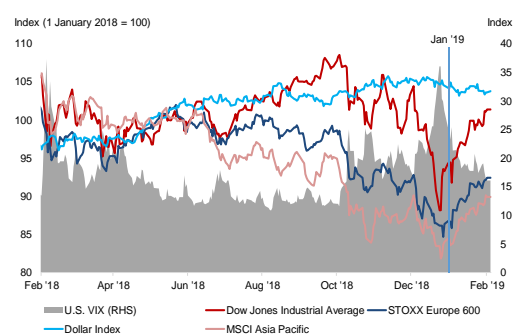
The earnings of U.S. companies held up well in 2018. Indeed, Q3 earnings growth reached a record high of 19.6 percent yoy (Figure 4). However, uncertainty over the outcome of the U.S.-China trade situation and the expected slowdown in the Chinese economy has cast doubt on the prospects for corporate earnings in 2019.

Figure 1. United States: Real GDP Growth and Inflation



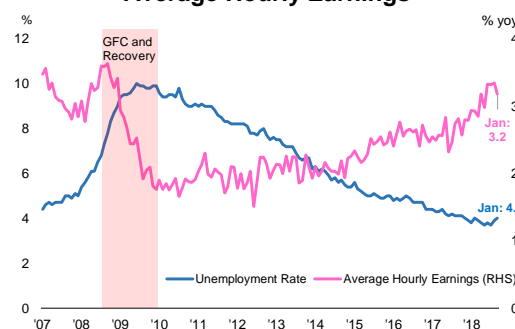
Source: Bureau of Economic Analysis.

Figure 2. Global Stock Markets, U.S. Volatility and Dollar Indices



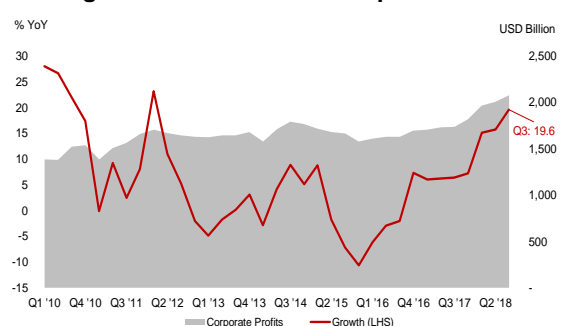
Source: Haver Analytics.

Figure 3. United States: Unemployment Rate and Average Hourly Earnings



Source: Bureau of Economic Analysis.

Figure 4. United States: Corporate Profits



Note: Corporate profits after tax with inventory valuation adjustment (IVA) and capital consumption adjustment (CCAAdj)
Sources: Bureau of Economic Analysis; Federal Reserve Bank of St. Louis

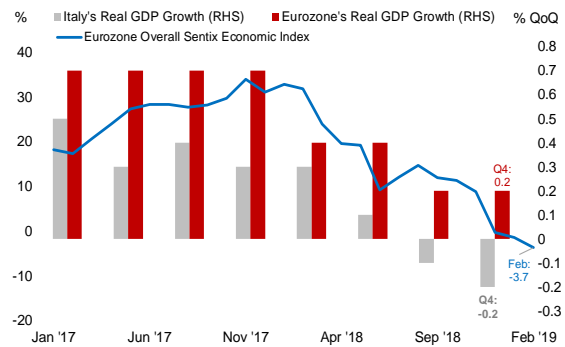
The latest data point to continued weak economic performance across countries in the Eurozone. The region posted sluggish growth of 0.2 percent qoq, with Italy slipping into recession for the third time in a decade (Figure 5). Economic activity in Germany was affected by new car emissions procedures, which interrupted its car manufacturing industry. Investor sentiment hit a four-year low, with the Sentix Index falling from -1.5 in January to -3.7 in February.

The weaker economic outlook for the Eurozone is predicated on expectations of a China slowdown, declining stimulus from the U.S.'s tax cuts, and the spectre of a trade war. The EC recently revised downwards its projections for Eurozone growth quite substantially (Figure 6), as well as for inflation for the 2018–2020 period. The ECB is similarly expected to cut its forecasts at its 7 March Governing Council meeting.

In the United Kingdom, the lack of any clear path to Brexit continued to weigh on the economy. With less than two months left to 29 March for its departure from the EU, the probability of a no-deal Brexit is rising. Domestic demand decreased yoy in December as consumer confidence continued to decline (Figure 7). The Bank of England recently revised its 2019 growth projection down to 1.2 percent from 1.7 percent, with a 25 percent chance of recession, citing Brexit uncertainty and a slowing global economy.

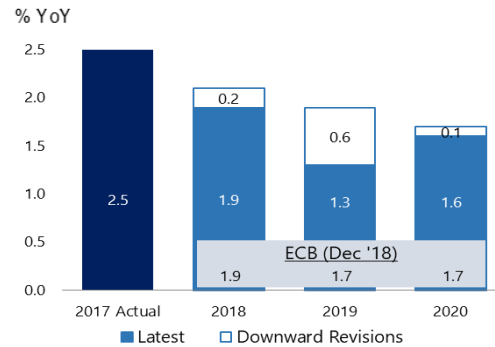
In commodity markets, global oil prices continued to rise in early February, while agricultural commodities saw a slight uptick. The former increased to USD 62.5 per barrel, from around USD 61 per barrel at the end of January (Figure 8), largely attributable to OPEC's oil supply cuts and U.S. sanctions against Venezuela.

Figure 5. Eurozone: Overall Sentix Economic Index and Real GDP Growth



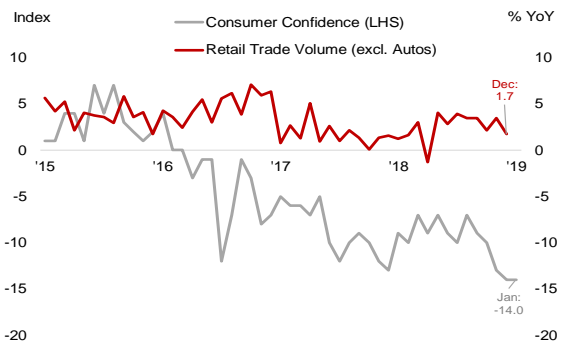
Notes: For the Sentix Economic Index, a reading above zero indicates optimism; below zero indicates pessimism.
Sources: EuroStat; Haver Analytics.

Figure 6: Eurozone: Real GDP Growth



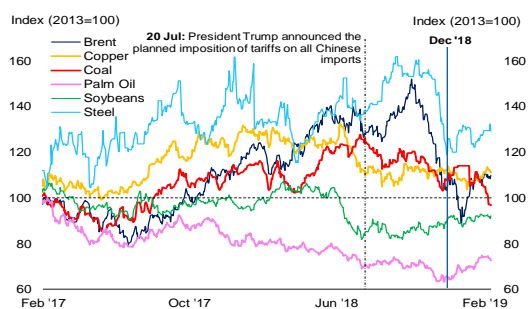
Source: Haver Analytics.

Figure 7. United Kingdom: Consumer Confidence and Retail Trade



Sources: U.K. Office for National Statistics; GfK NOP (U.K.).

Figure 8. Global Commodities Prices



Source: Haver Analytics.

Regional Economic Developments

The slowing manufacturing performance among the ASEAN+3 signals a softer outlook in the face of external headwinds.

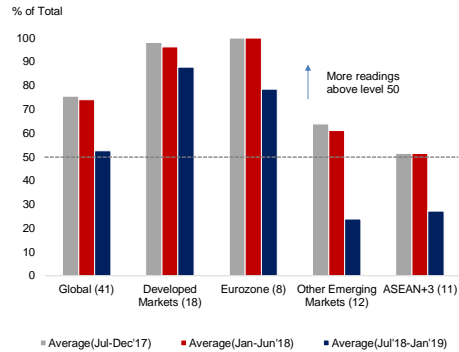
The number of countries in the region, along with other emerging markets, that have posted manufacturing PMI of below the breakeven level of 50, has increased noticeably over the past seven months (Figure 9). It suggests that the slowdown in economic activity has become more widespread (Annex 2).

The maturing tech-cycle and continuing uncertainty from the trade tensions saw a sharp drop in new export orders. With the exception of Malaysia and the Philippines, export values contracted across countries (Figure 10). China—the biggest driver of regional exports—posted -4.4 percent growth in export value and -4.9 percent in volume.

China’s monthly indicators point to economic activity slowing further, impacting corporate profits. Weighed down by weak producer prices and soft demand, industrial profits fell for a second straight month, -1.9 percent yoy in December following -1.8 percent in November, putting more pressure on the economy (Figure 11).

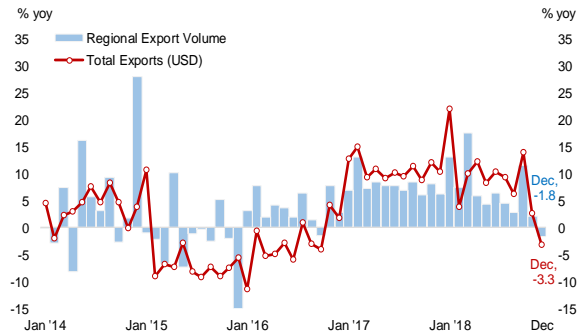
In Japan, major economic indicators also point to a weaker economic outlook for 2019. Factory output remains fragile (Figure 12), and is likely to deteriorate further in the face of slowing global demand. Growth in retail trade also edged down from 1.4 percent in November to 1.3 percent in December, the lowest for the second-half of 2018, which could pose concerns for policymakers ahead of the planned consumption tax hike in October 2019.

Figure 9. Manufacturing PMI Difusion Index



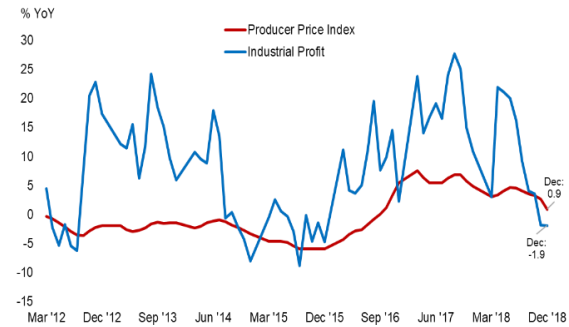
Note: This diffusion index is calculated by subtracting number of readings above 50 by those below 50, then divided by total number of readings. Numbers in the parentheses are the total numbers of economies included in the regions. Sources: IHS Markit; and AMRO staff calculations.

Figure 10. Regional Exports



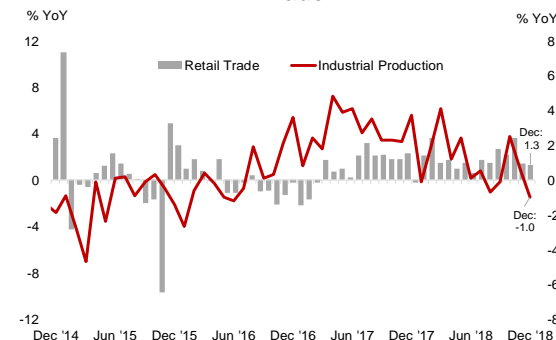
Source: National authorities.

Figure 11. China: Industrial Profit and Producer Price Index



Source: National authorities.

Figure 12. Japan: Industrial Production and Retail Trade

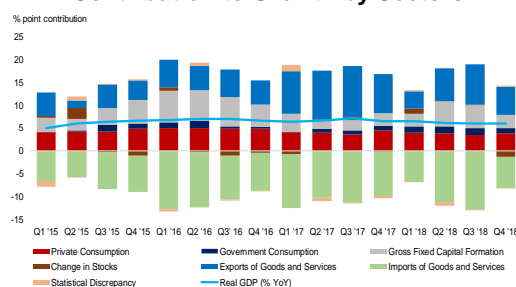


Source: National authorities.

In the ASEAN region, Q4 2018 data showed an improvement in economic activity across major economies. In Malaysia, Indonesia, Philippines and Vietnam, growth readings in Q4 were relatively firmer compared to the previous quarter, as domestic demand continues to hold up:

- The Philippines: Q4 GDP grew slightly, to 6.1 percent yoy, up from 6.0 percent in Q3, on the back of improved exports and private consumption (Figure 13).

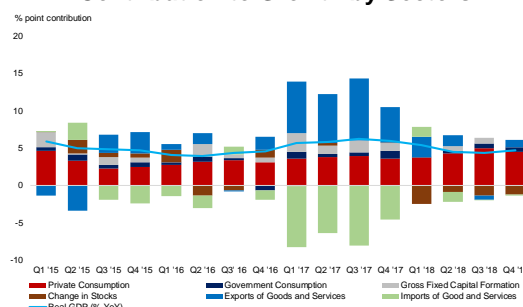
Figure 13. The Philippines: Real GDP Growth and Contribution to Growth by Sectors



Source: National authorities.

- Malaysia: GDP grew 4.7 percent yoy in Q4, up from 4.4 percent in Q3 (Figure 14). This is driven by larger trade surplus as exports expanded by 1.3 percent, while imports rose at a more tepid pace of 0.2 percent.

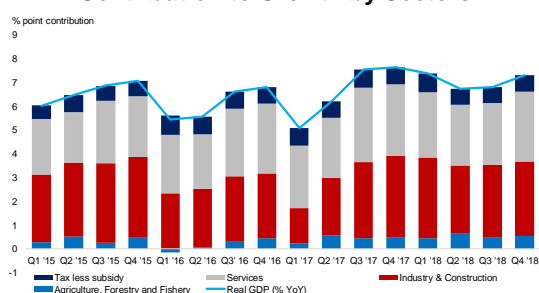
Figure 14: Malaysia: Real GDP Growth and Contribution to Growth by Sectors



Source: National authorities.

- Vietnam: GDP increased 7.3 percent yoy in Q4, on account of strong growth in manufacturing (Figure 15). It was driven by the electronics as well as services sectors, propelled by the wholesale and retail industries and tourism (Figure 15).

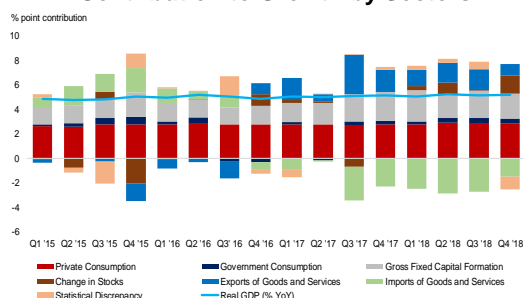
Figure 15. Vietnam: Real GDP Growth and Contribution to Growth by Sectors



Source: National authorities.

- Indonesia: GDP grew 5.2 percent yoy in Q4, driven by consumption and investment (Figure 16). Consumption picked up as a result of increased government spending during the regional elections in mid-2018 and prior to the Presidential election in April this year.

Figure 16. Indonesia: Real GDP Growth and Contribution to Growth by Sectors



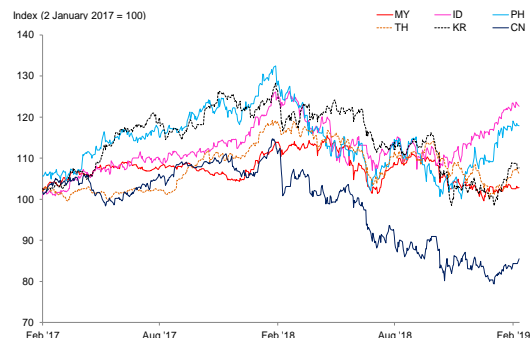
Source: National authorities.

In tandem with global financial markets, the region’s emerging equity markets rebounded going into February (Figure 17). Notwithstanding the more pessimistic outlook for growth, regional equities have risen by an average 2.0 percent between January 15 and February 13, buoyed by more accommodative signals from the Fed. Korea’s stocks gained the most, up by 4.4 percent over the same period.

Consistent with developments, regional markets witnessed a jump in net equity inflows (Figure 18). Equity markets gained an aggregate USD 5.5 billion in non-resident flows—the highest level since July 2016—of which USD 3.7 billion were destined for Korea (Annex 3). In contrast, bond markets reported cumulative outflows of USD 2.6 billion in January, again largely driven by Korea, on the back of larger bond redemptions as foreign investors took profit on their short-term portfolios.

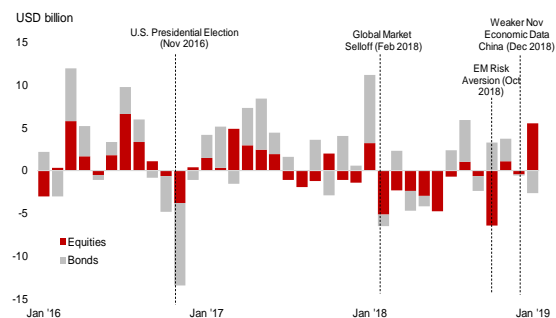
Regional currencies continued to strengthen in February, largely on the back of a weaker USD, in the wake of the Fed’s dovish turn (Figure 19). In Thailand, a high current account surplus from trade and tourism revenues also contributed to a stronger Thai Baht. Countries in the region have kept their policy rates on hold, and the benign inflation environment provides some respite for monetary policy (Annex 4), even as the risk of faster-than-expected tightening in global financial conditions recedes.

Figure 17. Equity Markets (ASEAN-4, China and Korea)



Source: Haver Analytics.

Figure 18. Capital Flows into Regional Equity and Bond Markets



Notes: Equity markets include ASEAN-4, Korea and Vietnam. Bond markets include ASEAN-4 and Korea. January bond data is not available for Thailand. Source: National authorities.

Figure 19. Regional EM Currencies



Source: Haver Analytics.

Annex 1: GDP Growth and Inflation for Selected ASEAN+3 Economies

% year-on-year	2016	2017	2018			
			Q1'18	Q2'18	Q3'18	Q4'18
Brunei Darussalam						
Real GDP Growth	-2.5	1.3	2.6	-2.8	-1.2	-
Inflation	-0.7	-0.2	0.1	0.2	0.2	-
Cambodia						
Real GDP Growth	7.0	7.0	NA	NA	NA	NA
Inflation	3.0	2.9	2.2	2.7	2.5	2.4
China						
Real GDP Growth	6.7	6.9	6.8	6.7	6.5	6.4
Inflation	2.0	1.6	2.2	1.8	2.3	2.2
Hong Kong, China						
Real GDP Growth	2.2	3.8	4.6	3.5	2.9	-
Inflation	2.4	1.5	2.4	2.1	2.5	2.6
Indonesia						
Real GDP Growth	5.0	5.1	5.1	5.3	5.2	5.2
Inflation	3.0	3.6	3.3	3.3	3.1	3.2
Japan						
Real GDP Growth (Fiscal Year)	1.2	1.6	1.3	1.5	0.1	0.0
Inflation (Fiscal Year)	-0.1	0.7	1.3	0.6	1.1	0.9
Korea						
Real GDP Growth	2.9	3.1	2.8	2.8	2.0	3.1
Inflation	1.0	1.9	1.1	1.5	1.5	1.8
Lao PDR						
Real GDP Growth (Fiscal Year)	7.0	6.9	NA	NA	NA	NA
Inflation	1.6	0.8	1.5	2.0	2.7	1.9
Malaysia						
Real GDP Growth	4.2	5.9	5.4	4.5	4.4	4.7
Inflation	2.1	3.8	1.8	1.3	0.5	0.3
Myanmar						
Real GDP Growth (Fiscal Year)	5.9	6.8	NA	NA	NA	NA
Inflation	6.8	4.0	5.3	6.1	8.1	8.0
The Philippines						
Real GDP Growth (Fiscal Year)	6.9	6.7	6.6	6.2	6.0	6.1
Inflation	1.3	2.9	3.9	4.8	6.2	5.9
Singapore						
Real GDP Growth	2.4	3.6	4.5	4.1	2.3	2.2
Inflation	-0.5	0.6	0.2	0.3	0.7	0.5
Thailand						
Real GDP Growth	3.3	3.9	5.0	4.7	3.2	3.7
Inflation	0.2	0.7	0.6	1.3	1.5	0.8
Vietnam						
Real GDP Growth	6.2	6.8	7.5	6.7	6.9	7.3
Inflation	2.7	3.5	2.8	3.8	4.1	3.4

Notes: GDP Growth: refers to calendar year, unless otherwise stated. Inflation: refers to period average headline inflation; in calendar year unless otherwise indicated. For Myanmar, 2018 annual fiscal year refers to new fiscal year starting from October 2018 – September 2019.

Sources: National authorities; AMRO staff estimates and projections.

Annex 2: Global Manufacturing PMI Heatmap

Economies	2015				2016				2017												2018												2019	Change from Prev Month	Trend (with min and max pts)
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan		
Global	[Heatmap cells]																																Jan	↓ -0.7	
Developed Markets	[Heatmap cells]																																Jan	↓ -0.6	
U.S.	[Heatmap cells]																																Jan	↑ 1.2	
U.K.	[Heatmap cells]																																Jan	↓ -1.4	
Eurozone	[Heatmap cells]																																Jan	↓ -0.9	
Austria	[Heatmap cells]																																Jan	↓ -1.2	
France	[Heatmap cells]																																Jan	↑ 1.5	
Germany	[Heatmap cells]																																Jan	↓ -1.8	
Greece	[Heatmap cells]																																Jan	↓ -0.1	
Ireland	[Heatmap cells]																																Jan	↓ -1.9	
Italy	[Heatmap cells]																																Jan	↓ -1.5	
Netherlands	[Heatmap cells]																																Jan	↓ -2.1	
Spain	[Heatmap cells]																																Jan	↑ 1.3	
Emerging Markets	[Heatmap cells]																																Jan	↓ -0.7	
Brazil	[Heatmap cells]																																Jan	↑ 0.1	
India	[Heatmap cells]																																Jan	↑ 0.7	
Russia	[Heatmap cells]																																Jan	↓ -0.8	
South Africa*	[Heatmap cells]																																Jan	↑ 1.4	
China	[Heatmap cells]																																Jan	↓ -1.4	
Hong Kong*	[Heatmap cells]																																Jan	↑ 0.2	
Japan	[Heatmap cells]																																Jan	↓ -2.3	
Korea	[Heatmap cells]																																Jan	↓ -1.5	
ASEAN	[Heatmap cells]																																Jan	↓ -0.6	
Indonesia	[Heatmap cells]																																Jan	↓ -1.3	
Malaysia	[Heatmap cells]																																Jan	↑ 1.1	
Philippines	[Heatmap cells]																																Jan	↓ -0.9	
Singapore*	[Heatmap cells]																																Jan	↓ -2.6	
Thailand	[Heatmap cells]																																Jan	↓ -0.1	
Myanmar	[Heatmap cells]																																Jan	↓ -0.6	
Vietnam	[Heatmap cells]																																Jan	↓ -2.0	

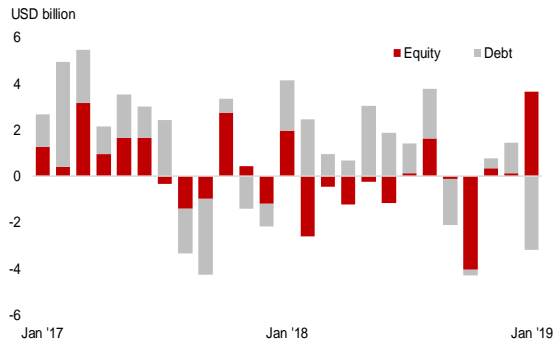
Notes: These seasonally adjusted PMI readings are coded by colors:

- Darker shades of red in the reading denote readings further below (< 45) the diffusion level of 50; conversely, greener shades in the readings denote readings further above (> 55) the diffusion level of 50.
- The trend lines shown in the right-most column represent the PMI readings since January 2015, the red dots denote minimum and maximum points in that period.
- Global PMI is as aggregated by JP Morgan. China's PMI refers to Caixin/ Markit PMI.
- (*) denotes whole economy PMI.

Sources: IHS Markit; JPMorgan.

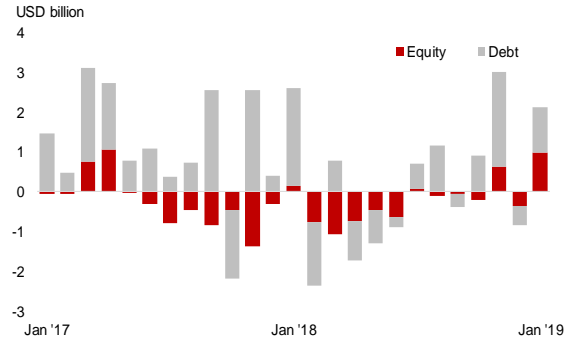
Annex 3: Capital Flows into Regional Equity and Bond Markets, Selected ASEAN+3 Economies

Korea



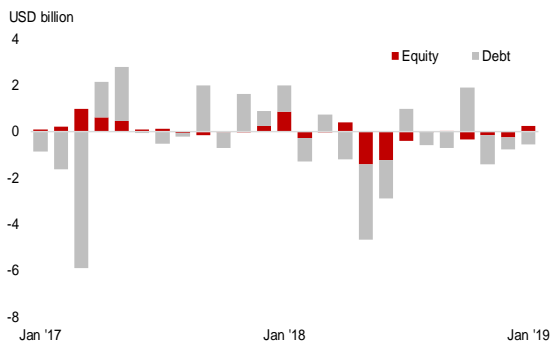
Source: National authorities.

Indonesia



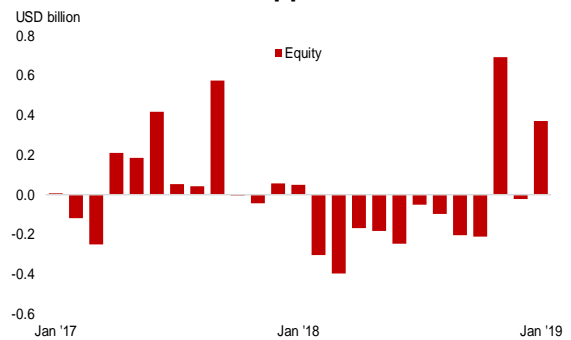
Source: National authorities.

Malaysia



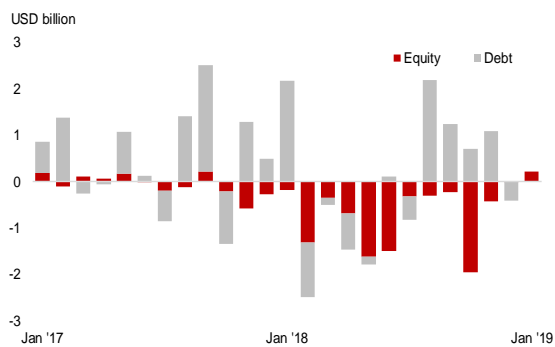
Source: National authorities.

Philippines



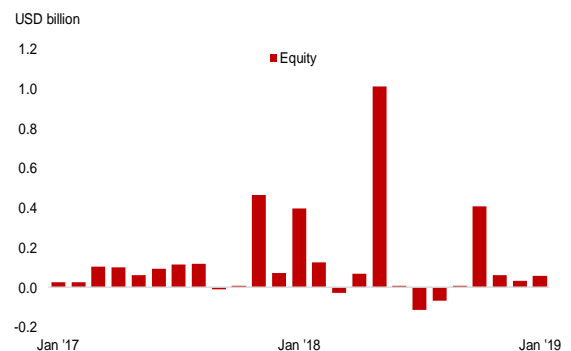
Source: National authorities.

Thailand



Source: National authorities.

Vietnam



Source: National authorities.

Annex 4: Major Policy Developments (11 January – 14 February 2019)

<p>China</p>	<p>[24 January 2019] The People's Bank of China announced its decision to launch Central Bank Bills Swaps (CBS), in order to raise the liquidity of bank perpetual bonds (including non-fixed term capital bonds) and support their issuance to supplement capital by banks. Open market operations primary traders will be able to use perpetual bonds issued by qualified banks to obtain CBS from PBOC.</p> <p>[29 January 2019] The authorities unveiled a raft of measures to secure stable domestic consumption growth in 2019. The policy plan will inject new impetus into automobile sales, urban and rural consumption upgrades, spending on new products and services, and improvement in the consumption environment.</p> <p>[30 January 2019] Amid economic downward pressure, China continues to cut taxes and fees as part of its fiscal stimulus. Following a fresh round of personal income tax reductions in January 2019, new deductions for enterprises are set to be introduced in early February. Starting from 2019, State Taxation Administration will further expand the tax exemption and reduction list of both income tax and value-added tax (VAT) for small businesses and start-ups.</p> <p>[31 January 2019] China drafted Foreign Investment Law for approval by plenary session of the National People's Congress. The drafted law highlights equal treatment for foreign investors and forbids forced technology transfers on foreign businesses. The updated draft proposes using the same contents prescribed in the Company Law and the Partnership Enterprise Law to regulate the form and structure of foreign-invested enterprises. The latest draft of China's Foreign Investment Law now heads to the upcoming plenary session of the National People's Congress on March.</p>
<p>Japan</p>	<p>[23 January 2019] The Policy Board of the Bank of Japan decided to maintain the policy rates and the guidelines for asset purchases unchanged.</p>
<p>Korea</p>	<p>[24 January 2019] The Monetary Policy Board of the Bank of Korea (BOK) decided to maintain the base rate at 1.75 percent.</p>
<p>Cambodia</p>	<p>[29 January 2019] To boost agricultural production, the Ministry of Economy and Finance signed a Directive 100 to suspend profit tax prepayments for enterprises involved in producing, supplying or exporting paddy rice, rice, corn, beans, pepper, cashew nuts, cassava or rubber.</p>
<p>Indonesia</p>	<p>[17 January 2019] The BI Board of Governors held the BI 7-Day Reverse Repo Rate at 6.00 percent, while also maintaining the Deposit Facility (DF) and Lending Facility (LF) rates at 5.25 percent and 6.75 percent, respectively.</p>
<p>Malaysia</p>	<p>[24 January 2019] Bank Negara Malaysia kept its key interest rate unchanged at 3.25 percent, given subdued inflation and growth supported by domestic consumption.</p>
<p>Myanmar</p>	<p>[15 January 2019] CBM issued a directive to domestic banks, announcing that banks are allowed to extend loans without collateral at a maximum lending rate of 16 percent. The new maximum interest rate of 16 percent is all inclusive of other charges and applies for both installments and one-off repayments. The current 13 percent lending rate with collaterals remain. The effective date will be on Feb 1, 2019.</p>
<p>Philippines</p>	<p>[7 February 2019] The Monetary Board decided to keep the interest rate on the BSP's overnight reverse repurchase (RRP) facility unchanged at 4.75 percent.</p>
<p>Thailand</p>	<p>[6 February 2019] The Bank of Thailand Monetary Policy Committee decided to keep the policy rate at 1.75 percent.</p>

Source: National authorities.